PRIVATE SECTOR PARTICIPATION IN THE DEVELOPMENT OF PUBLIC WORKS : ISSUES AND GUIDELINES

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ABSTRACT: *The aim of this paper is to develop guidelines for greater participation of the private sector in the development of public works. In so doing it will be necessary to review the various forms of privatisation and to determine which areas best lend themselves to private participation.*

A number of forms of privatisation have had mixed success in the past, both in Australia and overseas. As far back as the depression years of the 1930s the private sector has participated in the development of public works. For example, the Hornibrook Highway in Brisbane linking Redcliffe to Brighton was privately funded and was the first bridge for which a toll was collected in Queensland. A more recent example, the Gateway Bridge, is a case where the private sector has provided a facility that may not have been built for some time if left to the availability of public funds.

The development of suitable guidelines for the greater participation of the private sector in the provision of public goods must consider the issues of asset ownership, competition, the role of regulation and social equity. Unless these issues are adequately addressed at the outset, it is likely that special interest groups will gain an advantage over others. Above all else, the elements of competition must prevail throughout.

PRIVATE SECTOR AND PUBLIC WORKS

INTRODUCTION

A number of forces which could directly influence the roles of the public and private sectors are currently emerging in Australia. These forces include continuing attacks on the levels of Government expenditure and doubts concerning the efficiency of the public sector. Many of the well publicised advocates of privatisation in Australia are clearly influenced by their perception of the success of the Thatcher Government's privatisation programme, but what is not clear is whether they believe that the U.K. type of privatisation suits Australia.

The Australian Chamber of Commerce believes that there are more than twenty different methods of privatisation and they range from:

- selling part or whole of an enterprise to the public or to employees; to
- the contracting out of particular services previously undertaken by Government (The Age, 1985).

While it is not the purpose of this paper to examine the various forms of privatisation in detail, a brief review is useful background to the main focus of private funding of public tollable assets. Walker (1986) proposes that privatisation as it is currently being presented encompasses four general areas of activity. Firstly, it can simply involve selling off of public enterprises and transferring in whole or part state economic functions to the private sector. Secondly, it can involve the contracting out of public sector services to the private economy or community organisations. Thirdly, it can involve the privatisation of the financing of a service produced by the public sector. Fourthly, and finally, privatisation can take the form of economic deregulation which comes in three forms:

- market liberalisation - that is, the relaxation of government monopolies which prevent the private sector entering markets;

- relaxing controls over the operation of private sector firms - for example by financial deregulation; and

- trade liberalisation - for example, by reduced import quotas and duties and acceptance of trade subsidies by overseas trading partners.

Interest in this paper centres on the two areas of "contracting out" and "privatising finance". There are numerous examples where contracting out of government services have been successfully employed - for example, garbage collection undertaken by contractors. At the Commonwealth Government level in Australia, many services have been traditionally contracted out including building construction, basic health care, defence procurement and the manufacture of most Telecom equipment (Dawkins, 1986). The opportunities at the State level to contract out are considerably greater. Examples include the Queensland Government use of contractors to maintain the electrical distribution system. Contracting out can potentially result in greater cost to the public if the benefits of competition are ignored. Similarly, the government can lose the economic benefits of contracting if the advantages of vertical integration and internal co-ordination are lost. For example, it is alleged that the cost of road construction in the U.K. has increased, not decreased, as a result of contracting out (Riddell, 1983).

A balanced view of the costs and benefits of contracting out must be taken at the outset to determine if the method produces a desirable outcome. Difficulty obviously arises in the measurement of social benefits that are qualitative and not quantitative Examples and issues involving "privatising of finance" will be discussed at some length later in this paper.

In considering the relative and potential roles of the public and private sectors in the provision of public goods and services it is necessary to understand the different types of goods that a society requires (Paul, 1987). The end points on the continuum of goods and services are:

- public goods, which are those that are collectively consumed by the public and that cannot be denied to any one individual without denying them to all individuals; and

- private goods, which are those that are consumed individually.

In between, there are two other categories of goods and services namely:

- toll goods, which can be produced through the private market but do require some collective action; and

- common pool goods and services whose continued supply will not be assured through the private market, as individuals will have a tendency to squander them away.

There are a variety of production/delivery modes for these various types of goods and privatisation is not likely to be a valid strategic option in all cases. However, for toll goods, which are of interest in the paper, there are a number of feasible private delivery modes including franchise, contract, joint market and market (Paul, 1987)

Examples include:

- electricity, water, telephone, highways, etc. could be produced privately under franchise or contract on agreed terms;

- government may jointly invest with private parties under some conditions; and

- the market may produce these goods subject to regulation by the State if natural monopolies emerge

RATIONALE FOR PRIVATISATION

A significant contributing force behind Australia's move to privatisation is the general decline in the country's economic position Governments, both State and Federal, cannot afford to maintain the level of services previously provided The political ramifications of this are far reaching. Unless alternative means of delivering services and works are developed there could be pronounced decline in the living standards of a large number of Australians. Privatisation is seen as a means for reversing this trend. In broad terms then the pressures for privatisation are:

- governments all around Australia are starved for funds;

- there is a growing perception/belief in the community that public authorities are often better at serving the interests of their employees and management than their customers;

- public authorities have acquired a reputation for being high cost suppliers;

- the problems of ensuring proper accountability of public authorities have become a political issue since the Rae Report in 1978 drew attention to the lack of effective controls;

- public support for authorities is undoubtedly being eroded because of their politicisation; and

- the perceived success of privatisation overseas is advanced as evidence of the benefits that can be realised. The forms of privatisation that are most often referred to are the sale of assets and de-regulation (Institute of Public Administration, 1984)

These factors are obviously interrelated and essentially involve the desire

- to substitute user charges (and/or private finance) for tax finance; and

- to increase the role of the market in determining/ influencing investment outcomes through reduced government involvement.

Some would even suggest that reduction of the power of trade unions is an objective (Clark, 1987).

CONDITIONS FOR SUCCESS OF PRIVATISATION

The key conditions for success of privatisation in the form of contracting out and private financing of toll goods include:

- specificity of services or measurability of outcome. Contracting is difficult when the service cannot be defined in precise terms

- multiplicity of producers leading to competitive behaviour. Long-term contracts and franchises tend to minimise competition and limit consumer choice.

- consumer ability to link the benefit of a service to the cost incurred in the process of consumption. User charges are one way of establishing this link.

- perceived as less susceptible to fraud than equivalent government provided good or service (Paul, 1987)

A strong political commitment must accompany the above technical conditions for success.

The resolve by Governments to save money (and reduce expenditure) and to strengthen management in the bureaucracy does not eliminate the continuing need to invest in and maintain essential infrastructure In such an environment this can only occur by encouraging more private sector involvement (Randall, 1987) although such involvement may be conditional on appropriate financial incentives being put in place Indeed, it could well be argued that there are many areas where Governments, through some obsolete political or economic rationale, are unnecessarily and inappropriately involved in the provision of services.

In this regard, the Queensland State Government, for example, has begun to make extensive use of cost recovery on the basis of "user pays", so that large transport projects such as the Gateway Bridge and the Logan Motorway can be funded privately While it is clear that toll roads and toll bridges are not entirely a new approach and the Westgate Bridge in Melbourne, the F3 Freeway north of Sydney and the Hornibrook Highway in Brisbane were earlier examples of the "user pays" approach, the recent interest by Governments in again considering alternative methods of funding for public works is an extension of the privatisation debate.

The role of Governments, in moving towards a wider participation of the private sector, is clearly quite different from being the actual provider of the service. Reductions in the size of the public service must accompany the transfer of services if the full benefits are to be realised as the role of government must be limited to supervising the effectiveness and accountability of privatised public functions after the transfer.

ALTERNATIVE FUNDING METHODS FOR PUBLIC WORKS

Traditionally, public works are funded from general revenue gathered from the three levels of government - Federal, State, and Local or by loan raisings Alternative funding options, including those identified by the Australian Federation of Construction Contractors (1984), are:

Bond Markets

The public has been buying bonds to finance public utilities for years, and the approach could be used to fund new capital works in future. Tax free status on bonds would prove attractive to investors and, although some tax may be foregone, there would be savings realised as part of the improved performance of the new facility.

Lease Purchase and Lease Back

Private industry is providing governments with 'design, construct and finance' packages for government buildings, allowing for lease over a period with subsequent purchase (lease purchase) In the alternative lease-back, government funds a facility it requires, sells the facility to a private organisation, and leases it back for its own use. Both these mechanisms reduces a government's need for the immediate funds yet provides the facility early, when required.

Franchising

The private sector is capable of funding and constructing new facilities in return for a franchise to charge "user fees" such as rent, tolls or service charges. The facility must be of a type capable of generating adequate revenue, for example, a well trafficked bridge.

The use of the above funding options are largely predicated by the taxation laws that are in force at the time. For example, leasing by State Governments has come under the scrutiny of the Commonwealth after the N.S.W. Government arranged a lease-back deal on Eraring Power Station (claiming a right to the investment allowance and other deductions). Legislative changes were incorporated into Section 51 AD of the Tax Act to deny deductions and allowances attributable to ownership where (Cunningham, 1984):

the assets are owned by a taxpayer and leased to a tax exempt end user; or

the assets are owned by a taxpayer and used in connection with the provision of services and such assets are controlled by a tax exempt user;

the taxpayer owner of the assets has financed a substantial amount of the cost by debt on a 'non-resource' basis, that is, where rights of the lender to the owner are non-existent, limited only to the assets being financed or where the lender is looking to other arrangements to which the taxpayer is a party (such as a government guarantee).

Implementation of Section 51AD meant leveraged leasing was not as attractive as straight finance or equity leasing and attention was diverted to these techniques. The Commonwealth again acted quickly to counter an upswing in lease deals to ensure that decision between loan financing and lease financing became tax neutral. Intervention by the Commonwealth has generally followed new schemes that attempted to by-pass the Loan Council and in 1984 global limits were set on Commonwealth and State borrowings.

Innovative financial structures have had severe limits placed on them since the adoption of the global approach. The arrangements established for the Gateway Bridge, for example, would now come within the Loan Council's global limit and is not a valid solution to the future funding of major capital works. Note, however, that the limits placed on borrowings by the Local Council can be increased by "special additions" to the global limit (Story, 1985). It has become apparent that the projects that have succeeded or are likely to proceed are generally backed by a strong government commitment. Included among these are the following:

- Gateway Bridge
- Sydney Harbour Tunnel
- Very Fast Train Project (VFT Project)
- Logan Motorway
- Sydney Mono-rail from Darling Harbour to the City
- Alice Springs - Darwin Railway
- International Airport Terminals for Cairns & Brisbane
- Gas Pipeline to Gladstone
- Stradbroke Island Bridge.

The choice between the various funding options available are complex and generally project specific In examining the alternative funding methods, it is not practicable to adopt a preferred approach and a number of variables will influence the final financing decision. The elements common to successful approaches to date are as follows:

- strong Government commitment
- sound revenue base
- long term perspective
- potential for peripheral development
- Government guarantees

A more progressive approach has been taken in Queensland than in other States. The Queensland Under-Treasurer has argued that governments need to be more forward thinking and take an entrepreneurial approach to the provision of infrastructure (Howard, 1985). Recent "successes" in Queensland in the area of privatisation should see continued use of private funds for public works. Some of these uses will be considered in the next section.

AUSTRALIAN CASE EXAMPLES OF PRIVATISATION OF "TOLL ROADS"

The provision of public infrastructure has always accounted for a major proportion of Government expenditure. Data assembled by BIS-Schrapnel Research (1985) emphases the relative importance of transport infrastructure (roads, highways, railways and harbours) as a percentage of total public sector capital expenditure in Australia - refer Table 1.

TABLE 1 Capital Expenditure by Government on Civil Engineering Infrastructure, by Type, Year Ending June 1985

Type of Construction	$m	% of Total
*Roads, Highways & Related Structures	2418.2	29.6
*Railways & Tramways	471.3	5.8
*Harbours	126.3	1.5
Dams & Water Supply Pipelines	393.5	4.8
Electric Power & Distribution Lines	1012.9	12.4
Water Distribution Systems	441.8	5.4
Sewer Systems	573.8	7.0
Pipelines (not included elsewhere)	122.8	1.5
Power Stations	1928.4	23.6
Telecommunication Towers, Lines & Structures	683.4	8.4
TOTAL	8172.0	100.0%

Source: BIS-Schrapnel (1985), p.6.

In Queensland a number of "successful" examples of privatisation have been based on the principle of user pays. The largest of these to date is the Gateway Bridge built by the Gateway Bridge Co. (a consortium which included Transfield Pty. Ltd. as the contractor, MacDonald Wagner Pty. Ltd. as the construction engineer and Citinational Ltd as the financier). Special enabling legislation was enacted by the Queensland Government to allow the project to proceed. A variation of this approach is being used to establish the Logan Motorway Co. to build a toll road from Goodna, west of Brisbane, to the Pacific Highway approaches to the Gold Coast (Randall, 1987).

Other projects that the Queensland Government has promoted as potential private developments have not been as successful as the above. The proposals for the development of the Stradbroke Island Bridge were not accepted by government as all proponents sought guarantees similar to the Gateway Bridge It was intended that the developer would build the bridge in exchange for a parcel of crown land on Stradbroke Island and the ability to charge a toll on users of the bridge. Despite a strong commitment by government to have the bridge built, a suitable proposal from the private sector was not forthcoming.

Discussion with Queensland Main Road Department officers by one of the authors concerning future projects that might attract private enterprise participation indicated that very few projects, possibly only one, would provide a satisfactory rate of return for an investor. The Queensland MRD believe that a 30% pretax return is required for an investor to be interested in funding road projects. Few projects achieve this without a spin-off from peripheral development. The Logan Motorway will not pay for itself but developments along the road corridor should allow the project to provide an adequate rate of return for the company. The successful construction contractors become shareholders in the Logan Motorway Company.

A final example is the Sydney Harbour Tunnel which is being developed by the Sydney Harbour Tunnel Company.

In many respects the mechanism underlying all three projects are very similar. The main difference is the degree of competition introduced to each project. Where competition is greatest so too are the potential benefits to the consuming public. Further summary details on the above project examples help to develop this point.

Gateway Bridge

The concept of the Gateway Bridge had its beginnings in the 1965 Brisbane Transportation Study prepared for the Main Roads Department (MRD) and Brisbane City Council (BCC) by consultants, Wilbur Smith & Associates. The river crossing was considered necessary to ease traffic on the city's existing major bridges and to divert flow away from the congested city centre.

A further report in 1978 lead to the signing of an agreement between the government and Gateway Bridge Co. in 1980 to design, finance and construct a new crossing. The Gateway Bridge Agreement Act 1980 granted the company operating rights to the bridge for 30 years to recoup the construction outlays of $140 million

Competition existed from the beginning of the project. Initially, tenders were called for the development of a tunnel/bridge to cross the Brisbane River and selection was made on the most competitive bid. The parameters for the crossing were set by the MRD to ensure comparable bids and to assist in the evaluation process However, the final design, was significantly different to the initial parameters set by MRD and were presumably based on a more cost effective design.

Construction of the Bridge was carried out under a Schedule of Rates Contract between the Gateway Bridge Company and Transfield (Qld) Pty. Ltd

The adoption of a Schedule of Rates contract on the bridge construction made it possible for Transfield to vary the design at previously agreed, and competitive, rates The rates of payment for each class of work were established in a letter from Transfield to the MRD dated 20th March, 1980 and were subject to rise and fall (refer to <u>Gateway Bridge Agreement Act 1980</u>, p.15).

The design and construction supervision was undertaken by MacDonald Wagner Pty. Ltd. and the cost agreed at the tender stage. Citinational Limited were appointed by the Gateway Bridge Company as financial advisers to prepare a financial plan and to arrange the finance for the various components of construction.

It is clear from the Gateway Bridge Agreement Act that the company responsible for the finance, design and construction of the bridge could not lose money. The project was completely underwritten by government and guarantees were given on loan agreements and income streams.

At the expiration of the 30 year franchise period the bridge becomes the absolute property of the State. The Gateway Bridge Company is bound to pay a franchise fee to the State for surplus funds, if they exist, after expenses are deducted for interest, operating costs and dividends. In this respect, the franchise fee can be adjusted to a level commensurate with the returns from the toll and it is understood that surplus funds are currently being used to finance the arterial road development that links the bridge to the north and south coasts.

The Gateway Bridge Company was established to allow the raising of funds outside the Loans Council limits in place at the beginning of this decade. The availability of tax losses during the construction phase of the project have considerable benefits to the company and such benefits would be reflected in the cost of capital. However, a benefit will only be obtained if (Gateway Bridge Company, 1983)

- the company derives future accessible income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss to be realised;

- the company continues to comply with the conditions for deductibility imposed by the law; and

- no changes in tax legislation adversely affect the company in realising the benefit from the deduction for the loss.

In reality, the level of return to the Gateway Bridge Company is entirely controlled by the government through the level of the franchise fee charged.

The fee is determined quarterly and is based on the result of the previous three month period. Clearly the level of the fee will be such that the maximum benefit to the government is realised.

Logan Motorway

The Logan Motorway links Goodna to the Pacific Highway at Loganholme and it is being developed by the Logan Motorway Company. This project follows on from the Gateway Bridge project and, as will be seen, is structured on a basis similar to Gateway. In fact, the Gateway Bridge Company and Logan Motorway Company share common directors and common provisions within the respective Acts of Parliament.

The competitive elements underlying the Logan Motorway Agreement Act are significantly stronger than the Gateway Bridge Agreement Act. First, the Queensland MRD appointed Crooks Michell Peacock and Stewart (CMPS) as managers and designers of the project and the Logan Motorway Company is responsible for paying all costs associated with the design/supervision. Second, tenders for construction were called by Logan Motorway Company for four separate sections of the project. Third, the successful tenderers were entitled to shares in the Logan Motorway Company and were given representation on the Board. Finally, the Logan Motorway Company is able to develop land along the road corridor.

It is recognised within the MRD that there are very few road type developments that would attract private investment in Queensland The use of potentially lucrative corridor "rights of development" may make the road project more attractive to private enterprise There is no detail in the Articles of Association on the use or structuring of the corridor developments and all directors are required to sign a declaration pledging strict secrecy in respect to all transactions of the company (Logan Motorway Company Ltd, 1987)

The major difference between the Gateway Bridge tender and the Logan Motorway tender is that the former was a development tender whereas the latter was in the form of a construction tender. For the Gateway Bridge, the successful tenderer won the rights to finance, design, construct and operate the Bridge. On ther other hand, the four successful tenderers on Logan Motorway only won the right to construct a portion of the motorway and to become part of the company.

Clearly, the more competitive nature of the Logan Motorway development should provide greater potential for savings as the contractors are being selected solely on the basis of lowest tender price. The complications of various design and/or finance options, present in the Gateway Bridge tender, do not need to be considered in evaluating tenders. A potential problem area may occur, however, if a contractor deliberately low bids the work in the belief that ongoing participation in the Motorway Company will offset the initial losses. In the long term, the contractor may make decisions to minimise outlays and maximise returns, in an attempt to offset construction losses Claims for variations to construction costs may also be an area of potential conflict between the company and the contractor.

One of the major advantages of the Logan Motorway Agreement over the Gateway Bridge Agreement is the independence of the designer/construction supervisor. The above arrangement is clearly preferable to that applying to the Gateway Bridge as the wider interests of the public are protected. Non-performance of the designer/supervisor is also easier to remedy under the Logan Motorway Act as it is a simpler process to terminate same without affecting the structure of the operating company.

The financial provisions of the Logan Motorway Agreement Act are almost identical to the Gateway Bridge Agreement Act. The conditions of franchise fee, guarantees and right of access to accounts in the two Acts are the same. The Logan Motorway Company is able to seek advice on financial matters in respect to raising loans whereas the Gateway Bridge Company included Citinational as financial advisor. Again, the independence inherent in the Logan Motorway approach may provide some competitive advantage in the raising of funds. It should be noted, however, that the State exerts considerable influence over the fund raising mechanisms of both projects and it has absolute control over all financial arrangements

While the Logan Motorway Agreement Act does not provide any radical new provisions that advance the cause of private organisations providing public works, it does provide, a contractual arrangement that could enhance competition during the tender process. How four separate and competing contracting organisations mutually agree the split-up of corridor developments is yet to be resolved. The influence of the State is even more pervasive on the Logan Motorway than the Gateway Bridge and it is likely that the State will need to be involved in the operation of the company - which appears no different than doing the development itself.

The use of corridor developments to attract investor interest in the provision of capital works at this stage is untested. As a principle, it is sound and future use of the method is likely. It will be necessary to closely scrutinise the Logan Motorway project through the development and operation phases to ascertain its success.

Sydney Harbour Tunnel

The acceptance by the NSW Government of the Transfield/Kumagai proposal for the construction of a second harbour crossing in Sydney provided a different approach to privatisation. Again, a strong political commitment to the project ensured that it proceeded with a minimal amount of public scrutiny. In so doing, a number of State tender practices were over-ridden to allow the government to proceed with the preferred developer.

As early as 1982 the government had identified a broad philosophy for the new crossing. It consisted of a bridge-tunnel proposal between Greenwich and Birchgrove and it would be funded by an increase of the toll on the Sydney Harbour Bridge and by the introduction of a toll on the Gladesville Bridge (Steketee, 1987). A toll of 60 cents each way on the existing bridges and on the new crossing would have been sufficient to fund the proposal.

A number of proposals had been submitted for the development of a new crossing for Sydney Harbour. Previous schemes included:

- Bridge proposal by Transfield and
- tunnel proposal by Pioneer Concrete Services

The proposals were generally west of the existing Harbour Bridge crossing and were rejected on engineering and/or cost grounds Transfield/Kumagai's proposal to fund, design and construct a tunnel on the eastern side of the existing bridge was seen to provide a means of bringing forward the commencement of a new crossing. The Sydney Harbour Tunnel Company Limited (comprising Transfield Pty. Ltd. and Kumagai Gumi Co. Ltd) had undertaken a feasibility study into the tunnel crossing and submitted it to the Government for consideration A further study worth $2 million was funded by government and undertaken by the company to prove the financial feasibility of the development and to establish the overall design/construction parameters.

The NSW Minister for Public Works argued that it would not be fair if Transfield/Kumagai had to compete for the tunnel construction contract as they had devised the scheme. Whilst this may be true, the loss of the competitive element, innate to the tender process, may result in a facility costing more in the long run and if so the consuming public will incur higher tolls as a consequence.

The Commissioner for Main Roads is responsible for all aspects of the design and construction of the Sydney Harbour Tunnel No work is able to commence without the prior approval of the Commissioner This arrangement is not dissimilar to that in the Queensland examples considered previously and is to be expected where public works are being provided. The direct contractual responsibility to the state simplifies the decision process throughout the life of the project and ensures that any conflicts of interest are quickly resolved.

The Sydney Harbour Tunnel project is underwritten by the Westpac Banking Corporation. Project finance is being raised by the use of long-term inflation indexed bonds (Hurst, 1987). The total value of the project is $754 million and the funds are being provided as follows:

- Westpac - $501 million worth of 30 year tunnel bonds
- Bridge Revenue - $223 million
- Sydney Harbour Tunnel Company - $80 million

Extensive provisions to protect all parties were written into the financing arrangements. The Bridge Revenue Loan Agreement provides an interest free loan to the Sydney Harbour Tunnel Company of $223 million for thirty years (Sydney Harbour Tunnel (Private Joint Venture) 1987 Act, Schedule 6, Cl. 2.1, p.36.) The financing aspects of the Sydney Harbour Tunnel are the most innovative of the cases considered and are clearly based on private enterprise principles There has not been an indirect burden placed on the NSW taxpayer and current bridge users, who will benefit from the scheme, are being charged for the new tunnel.

Westpac's revolutionary plan to provide project financing through indexed bonds is being considered for other projects, such as the Darwin to Alice rail connection and the VFT project (Hurst, 1987) If institutions fail to take up the bonds these projects could be adversely affected by the lack of local funds and the need to borrow offshore.

As with the Gateway Bridge and the Logan Motorway, there are guarantees with respect to revenues for the tunnel (refer Schedule 5, Part B of the Act)

The proponents of the Sydney Harbour Tunnel, Kumagai Gumi and Transfield, are both contracting organisations. Specialist design and consultant expertise is purchased as required and the Tunnel Company is responsible directly to the Commissioner of Main Roads There can be do doubt about the responsibilities of the parties to the agreement and there is little likelihood of conflict between the two companies forming the Sydney Harbour Tunnel Company. (Transfield and Kumagai have previously worked together on the Perisher Valley Ski-Tube project which involved significant tunnelling in difficult terrain, and both companies would be familiar with how each operated.)

The real significance of the tunnel project in NSW is that it is not entirely a private enterprise project. As with the cases in Queensland, the project is underwritten by Government. This may not be practicable in future. Other mechanisms that encourage private enterprise investment in public works type projects will need to be considered The next section will examine such mechanisms.

GUIDELINES FOR THE FUTURE

The privatisation debate has only just begun in Australia. In future there is likely to be a continued and expanded involvement of the private sector to ensure that services to the public are maintained. By necessity, there will be a shift towards the principle of "user pays".

To achieve this change there will need to be a major rethink in the role of government. Not only must private enterprise seek out new opportunities but it will be incumbent on government to examine its whole basis of operation and to reduce its operation in accordance with its reduced functions. The adopted model for privatisation will need to be adapted to suit local conditions as it is generally conceded that the Thatcher style of privatisation is not suited to Australia, and it is doubtful that sufficient funds could be raised to fund a massive sell-off of a number of the larger enterprises (Juddery, 1987) The so called "sacred cows" of the privatisation debate - Telecom, Australian Airlines and Qantas, could prove to be prime candidates for corporatisation, that is, the sale of a minority holding.

New Zealand has had particular success with a policy of corporatisation and a number of government enterprises have been converted to corporations. Instead of reaping one-off gains by selling off State-owned enterprises, the New Zealand Government has opted to keep all the present activities within the public sector, but to enhance the cost effectiveness of the system by exposing it to commercial forces (Sexton, 1987)

Clearly, some rationalisation of the overall size of government would be useful as certain functions are transferred from one sector to another. The main benefits in moving from departmental structures to independent corporations are:

- improved performance
- better use and management of state-owned assets
- control of government spending.

It is suggested that there will be an increasing use of corporatisation in future in Australia to overcome the resistance of interest groups. It provides the opportunity to move towards privatisation without necessarily selling-off the enterprise.

Central to the argument in favour of privatisation is the significance of a greater awareness of ownership and management Indeed, the central economic issue of productive efficiency and accountability is directly linked to managerial responsibility, ability and power (Hensher, 1987). These factors are clearly tied to the extent of government intervention in an enterprise and to the strength of the management of an enterprise. The balance of public goals of government and the private motives of private shareholders will largely depend on the relative influence of each. In most cases the government is likely to maintain a controlling interest in the enterprise and its influence will tend to dominate. However, the benefits of mixed ownership will include:

- a renewed emphasis towards financial viability - otherwise the shareholders will not be attracted the investment;

- a base for a wider source of investment funds. This is particularly relevant to the cases of Australian Airlines and Qantas which are in need of major capital injections; and

- a move away from tax-exempt status to a more commercial status resulting in the enterprise adopting a financial strategy more in line with the private sector (irregardless of dominant government control).

These benefits are not achievable without private sector involvement. Competition and deregulation may do little to offset the inefficiencies and subsidies of a poorly managed government business enterprise. The degree of liberalisation needed to achieve a level of competition that enhances the performance of an enterprise will vary on a case by case basis. It is generally held that liberalisation and competition are directly linked, although it would be counter productive to immediately deregulate all markets. An atmosphere must be created that is conducive to private investment and often this will only be achieved if a degree of regulation is sustained - at least for the short term.

As governments find it difficult to fund major new capital works, the role of the private sector is likely to be expanded The funding of these works will generally be combined with some form of guarantee from government, to attract investors and to ensure that funds are raised efficiently In reviewing the conditions for success of privatisation, a number of points emerged, as follows:

- specificity of services;
- multiplicity of producers;
- ability to link consumption with benefit;
- low susceptability to fraud; and
- equity and fairness.

There is a need for government to move towards a position where private enterprise is encouraged to invest in major new capital projects. Case examples of the Gateway Bridge, Logan Motorway and Sydney Harbour Tunnel have been examined in this paper.

The full gain to the consuming public of privately provided goods and services, which would normally be provided by the public sector, are only realisable if the size of the public service is reduced in line with the reduction in services. Government bodies such as Main Roads Department and the Public Works Departments will need to shift their emphasis to strategic planning and policy advice. The doing functions should be left largely to private enterprise.

Identification of projects that would be attractive to the private sector is not a simple task. Projects to date have generally been in line with needs expressed by government, although projects like the Stradbroke Island Bridge failed to go-ahead as the rate of return was insufficient for a private investor. Government in future will be required to identify projects that are suitable for development as they will be in a better position to determine the overall needs of the public and have an understanding of future industry development policy. Needless to say, projects that are instigated completely by the private sector, such as the Skitube and VFT project, will continue. Private sector organisations will continue to identify profitable market niches in future and, no doubt, a number of such projects will proceed.

The lessons learnt from the three Australian Case Studies considered earlier are clear. Each project was the result of reduced funding available for major infrastructure and a strong commitment by the government for the projects to proceed. However, the extent to which the projects studied could be classified as "private" is debatable. While various aspects of the cases considered are project specific, a number of general features emerge which should apply to future cases of privatisation of this form:

- the tender process should be competitive,
- the design and construction supervision contracts should be independent,
- the underwriting of all project financing by government, and
- the independence of involved companies.

It is clear that the government has played a central role in getting the projects considered off the ground and it is likely that this role will need to continue in the future. There has been little resistance to the projects from the public sector unions as various forms of contracting have been in use for a number of years. The fairness of a "user-pays" approach is also eminently suitable for infrastructure type projects and the recent announcement of a toll-bridge across the Maroochydore River north of Brisbane is evidence of the continuing popularity of the approach.

SUMMARY AND CONCLUSIONS

The privatisation of capital works in Australia has tended to concentrate on toll goods which can be delivered in a variety of ways and charged on a user-pay basis. Goods that lend themselves to privatisation of supply include highways and examples of road and bridge works being provided by the private sector are becoming more common in Australia. This trend is expected to continue in future.

A number of conditions for success of privatisation have been established, although conditions may be irrelevant until the debate on privatisation is based on a more rational footing. For example, union resistance to the approach may override all other factors.

The major candidates for privatisation are easily identifiable. They follow the trends from overseas. As the move towards smaller government gains momentum, the benefits of government reverting to its primary role of policy making will become self evident. It may be necessary to subsidise disadvantaged groups through a variety of mechanisms to ensure goods or services are available to the whole population.

Various funding methods for public works and their taxation implications have been examined in this paper. It is clear from the cases considered that the State Governments will structure the finance packages of future capital projects in the best way for the State and that Loan Council requirements will not necessarily directly impact on the preferred package. Whilst it may be argued that full government guarantees for loans taken out by private organisations carrying out public works are not true examples of privatisation, such guarantees enable the raising of funds at very competitive rates. In future, governments will be required to be even more entrepreneurial in funding infrastructure.

The Australian case studies considered in this paper illustrate some of the techniques being used to fund major capital works. The greatest benefits to the public at large are achieved in the level of competition sustained throughout the life of the project. In this regard the granting of a 30 year franchise period may not lead to optimum productive efficiency. A separate package for operating rights, competitively tendered, may provide a better solution.

There is no doubt that privatisation will continue in future and this paper has examined briefly the wider issues related to the approach. The elements that impact on the approach have been considered and a view to the future has been taken. Privatisation will become the issue of the 1990s as governments at all levels find it necessary to replace publicly provided services with cheaper and more efficient private producers. The roles of the public and private sectors are undergoing a fundamental change and such changes will continue to gain momentum.

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